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Dodsworth, William

State bank issues

[New York]

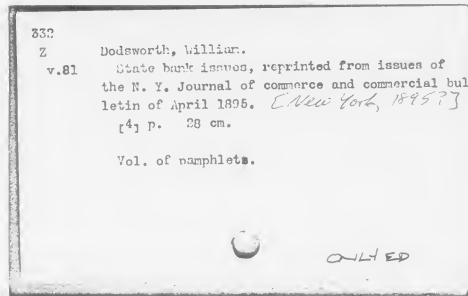
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Office of The Journal of Commerce and Commercial Bulletin,
19 Beaver Street, New York,
May 15, 1895.

To the Officers of the State Banks of the United States:

The disfranchised condition of the State banks, so far as respects their right to issue notes, may, I hope, be accepted as a sufficient apology for my inviting your attention to the views expressed in the accompanying Editorial Articles from recent issues of THE JOURNAL OF COMMERCE AND COMMERCIAL BULLETIN.

The time has come when, in all justice, that right should be restored to the State institutions. After measures of war finance had reduced their capital from 430 millions to about 65 millions, that item of resource has risen to an amount nearly half that of the National banks. The official records of their condition show that, in the main factors affecting strength and sound management, they stand equal to the banks operated under the National Banking Act.

The State Banks are planted very largely in sections where few National banks of issue are in operation, and a large portion of our planting and farming population is therefore deprived of that local elastic supply of currency so essential for the seeding, harvesting and marketing of the crops. That restriction of bank issues and the attendant curtailment of bank credits has unquestionably been the chief influence tending to create the clamor for free-coinage of silver which is now disturbing confidence from one end of the country to the other.

Moreover, the National bank currency, owing to the onerous conditions of its issue, has proved a complete failure as a contrivance for satisfying the retail requirements for circulation; and, within the last thirteen years, its volume has fallen from \$360,000,000 to \$200,000,000, while the trade of the country has concurrently increased fully fifty per cent.

The events of the last two years have so demonstrated the danger incident to the use of paper legal tender, that an imperative demand has arisen for the retirement of the Greenbacks and the Sherman notes, the satisfaction of which cannot be long delayed.

These facts create a RIPE OCCASION, AN AUSPICIOUS OPPORTUNITY AND AN IMPERATIVE NECESSITY for the enactment of a general Federal Law, which shall prescribe *absolutely safe conditions* for the issue of bank notes, and shall confer upon every incorporated bank, whether National or State, having not less than say \$25,000 capital, the right to issue circulating credits under the conditions so legally prescribed.

Such a law would satisfy the demand for "more money" which now finds expression in the blind agitation for free-coinage; and would, at the same time, make it possible to fill the hiatus caused by the withdrawal of the Government notes; which task would be an impossibility for the National banks alone.

The last twelve months of discussion of the currency question has developed a very marked predilection towards a policy of this general nature. Indeed, this may be said to be the only form of proposal embracing the enfranchisement of the State banks that has now a distinct formulation in the public mind. Its justice, its great public advantages, and its large adaptations for conciliating differences of opinion and of sectional sentiment and for promoting an early settlement of the whole currency question, seem to guarantee the acceptance of such a measure by a large majority of the people, provided the claim be urgently put before the country.

Manifestly, however, the demand for such a policy should come from the interest most directly concerned. The chief object of my volunteering these suggestions, therefore, is to ask Officers of our State Banks whether the opportunity is not fully ripe for their organizing concerted action looking to the legal recognition of their rights of issue.

It need scarcely be said that such a movement would be invaluable as a counteraction to the prevailing silver mania and that it would make a profound impression upon the impending formulation of party platforms in favor of a sound money policy.

WILLIAM DODSWORTH, Editor,
JOURNAL OF COMMERCE AND COMMERCIAL BULLETIN.

STATE BANK ISSUES.

REPRINTED FROM ISSUES OF

THE N. Y. JOURNAL OF COMMERCE AND COMMERCIAL BULLETIN

OF APRIL, 1895.

State Bank Circulation.

In the strong drift of public opinion towards constituting the bank note a preponderant element in our circulating medium, there is danger of the formulation of a sentiment which may imperil the success of the reform.

In the Middle and Eastern States there is a strong feeling against the admission of State banks to the privilege of issue. The objection is based upon the experience of the Western States, where the issue of State bank issues up to 1900, and the accounts unsatisfactory; that, in brief, their guarantee and the arrangements for their redemption were insufficient to protect the note holder in the event of a liquidation, or even as to the issue of many States. But this objection is not valid when it is proposed to put the notes to uniform Federal control, and to require the issue to be based upon all the assets of the bank and on the duplicate liability of the stockholders, to limit their volume to an amount equal to 75 per cent of the paid-up capital, and to provide arrangements for the redemption, which would make over-issues by any bank an impossibility; in brief, to subject the issues of the State institutions to the same control and supervision which might be made to apply to the National.

From this fact, it can only be inferred that the ostensible reason is not the real reason. The real reason is the necessity for candor. Of course, among the National Banks and their associates with the National Bankers' Association, the motive for preventing the admission of a large class of banks to valuable privileges is the same. The National Bankers' Association served to the National Institutions exclusively. Competitive considerations would obviously be of no account. The National Banks even to the National Bankers, there are two sides to this question. They have already been shown to be in the wrong. In the present season has been almost the sole cause of the notorious intense jealousy which, for the first time in the history of the National Bank, has been manifested in Congress, in political circles and throughout the West and South against this class of banks. The National Bankers' Association and adverse discrimination at every point; they have been unable to get legal ameliorations which would have been sufficient of which has been a serious embargo on the National Bankers. The conditions of note issue have been so severe that the

prevent a due expansion of their circulation but to actually compel its contraction to one-half its former volume. All this legal disability has come as the consequence of jealousy and resentment at the privilege of issuing circulation being restricted to one set of banks.

Not only have the hanks thus suffered a penalty far over-balancing the benefits accruing from their issue privately, but that the hanks have been thus made the cause of the depreciation of the silver cruse and of the depreciation of the silver cruse than is generally supposed. In 1873, when the depreciation of silver was in its beginning, we had about \$600,000,000 of silver cruses in circulation, and the rate of increase in population, the use of those notes ought to be now about \$600,000,000; the actual amount outstanding is now about \$600,000,000, which shows that this form of circulation has failed to satisfy the growing requirements of the country to the extent of \$600,000,000. In those countries where the silver cruse is of importance is attached to an ample supply of money, this fact has not passed unobserved. In the country, in the South and West, it is

friend magnanimity. The State of Tennessee, the friends, the ardent believers in States' rights and the advocates of the rights of the States, who have wanted larger financial facilities, who have started the cry of adverse federal legislation, who have been the loudest in the South in favor of the East; and, fostered by political expediency, this sentiment has largely contributed to the present position of affairs between the creditor class and the debtor class of the country.

Under the condition of things, the West and the South have been only too ready to unite with the faction who wanted to make silver the sole basis of currency, and to convert silver their mines were turning out in constantly augmenting quantity. As they could not have the gold coinage, they were naturally really preferred to any other form of money, they were ready to join hands with the faction who wanted to make silver the sole basis of currency, and to restrict the supply of coin; and we may attribute this artificial diversion of opinion to the fact that the gold coinage was not to be had, and that the bank currency arrangements more than to any other cause. Little therefore as the

true that our bad silver legislation is traceable very largely to the limitation of the right of note issuing to the National banks. These facts may serve to show how little the sole possession of this privilege of issue has been worth to the National banks,—how much positive mischief indeed it has helped to bring upon them and the whole nation.

The retention of this exclusive privilege by the National Institutions might easily prove to involve worse consequences than have been feared. It is very far from being certain that the silver vote will not do a sufficient vote to compel the adoption of free coinage of silver. No man can tell whether the retention of the status of the National Institutions will be such that faction would deny the possibility of such an outcome. The only sure way of knowing that possibility is to grant to the State banks the right to coin silver on as many really safe conditions. Any one acquainted with sentiment in the last Congress will know that the West and the South would prefer a rule that would be more than sufficient to prevent the re-issuance of the threatening further issues of silver; but it is equally certain that, should that right be granted, the issue of the silverites to have free coinage would be more strongly reinforced. At present, among the more in-

illigent leaders of the silver faction, agitation of the public mind is the only way to the privilege of issue to the State banks; but if that demand is denied, they must resort to the courts, and then they must prefer, but as being all they could do. Thus, to refuse State bank paper would be to force the silver faction to demand a policy that could only end in our commitment to the sole silver basis. In view of the fact that the silver faction is the dominant bank on this question deserves a much more ponder and more careful consideration than it has received. The silver faction's motives, impulses of self-interest are never the wisest; and ordinarily, the exclusion of other competitors is not the best policy. After all, important as these considerations may be, they are but secondary elements in the question of the right of issue to the State banks. Upon other grounds, it is susceptible to be still stronger. That if the right of issue to the State banks is refused, the silver faction, any comprehensive amendment of the currency law, the silver faction is immovable and the silver faction is the only one that is in danger from silver. From these points, however, more

State Banks and Note Issues

In our last issue, we presented certain considerations showing that the permission of State banks to issue circulation, upon certain safe conditions to be prescribed by Congress, would interfere less with the interests of the National banks than has been supposed. In further discussion of this question, it is important to inquire what are the chances of securing any really valuable reconstruction of our currency system without conceding the privilege of issue to the State institutions.

It may be proper, first of all, to state the conditions upon which that right should be exercised. The first condition is that the bank should be permitted to adopt the plan without adopting permitting any Incorporated bank to be established in the National or State, with a capital of not less than \$1,000,000, and a maximum extent of 75 per cent of the bank's paid up capital, on the stipulations following: (1) that the bank should be established upon the whole assets of the bank and a claim upon the stockholders to the amount of \$1,000,000; (2) that the bank should be established of a nature that would certainly insure effective check upon over-indebtedness; (3) that the regulations should rest with the Federal authority; and (4) that the existing tax of 1 per cent on the capital should be a note not issued in conformity with these conditions. Some adaptation of the State bank plan would be necessary, but the necessity might safely be left to itself to bring about such compromise as might be necessary between the National and State corporations would be virtually identical; both sound; both

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would be a liberal estimate to suppose that, on the average, the issues would not exceed \$100,000,000. The new issues would be an issue, as against the now existing capital, of \$300,000,000. Deducting from this the now existing capital of \$200,000,000, we have a remainder of \$100,000,000 available for offsetting the \$100,000,000 of new issues. The balance of the \$200,000,000 of legal tenders, it might be expected, however, that the new issues would be \$100,000,000. The increase in the amount of bank capital, which would broaden the capacity for issuing legal tenders, would be \$100,000,000, that is, increase might be; but it is clear that, in the event of a new issue, the new capital of \$100,000,000 would be added to the existing \$200,000,000 of capital, and allowing for the per centage \$200,000,000 of notes, the capital of all banks would be \$300,000,000. The new \$100,000,000, its present amount, to \$1,000,000,000. Its amount at the end of the withdrawal of

How to Treat the Silver Issue.

It is not my task to estimate how far the current widely sensational methods of silver mining have advanced the cause of the interest in its struggle for free coinages. The current phases of the agitation are intended to excite the popular imagination and to contribute to inflame passion and prejudice among the undeducated masses. This class is largely ignorant of the facts of the case, and the facts are applied, to admit of the capture of the popular imagination. To this extent, the agitation becomes propagandistic. It is therefore to the last degree urgent that the public be informed of the facts, and that this purely democratic propaganda.

of awful money now being lost that purpose.

But how is the kind of sentiment that has been expressed in the above paragraph to be solved, viewed in its fundamentally scientific aspects, is one of the most abstruse and difficult problems of the modern world, and of what avail can it be to reason upon it with men too ignorant to understand the question, especially when they are already prejudiced by opinion and prejudice, and when their actual position is such that with a mere partisan spirit of conflict they will not listen to any other view of the matter? It is not to be entirely sneered at, if it could not fail to be a very important question, in which the silver leaders have incited them; but it would be a great mistake to suppose that the silver question is the only one. More success in dealing with them may be expected by changing the attitude of the silver supporters.

In effect, it further amounts to this—that if this privilege cannot be made common to all, it is not a privilege at all. If it is to be a privilege on common terms, there can be no other restriction than that of the common circulation concurrently with the growth of the population; and the obvious effect of that restriction is to make the privilege common to all States will be fortified by an argument for more silver which would probably be found practically irresistible. To deny one issue of money to one State, would be to mean the perpetuation of the growing bad relations between the East and the West, and from whom they are apt to largely take their side on questions beyond their common interests.

The treatment of this issue as a mere subject of economic debate is neither the reader's nor the safest way of settling it. So far as it is a subject of economic debate, the excitement of partisan debate, the period of its disposal is postponed. The battle of the silver and gold interests is not settled by ignorant debate as the battle of the creeds has been. The statesman rather than the economist must be the final arbiter.

The first step towards a settlement must be a recognition of the fact that, whilst among the agitators there is a large element that is pure and devilry, yet behind all that and among the masses of the lower gent class of Western and Southern citizens there is a deep conviction of the existence of a grave sectional inequality and inequity, and that the only way of remedying it is possible through free coinage. That conviction lies at the root of the willingness of the Western and Southern States to help

their product upon the Government. Ten-fold more may be accomplished towards settlement by a wise and conciliatory consideration of this deep-seated sense of grievance than by heated debates on the comparative merits of gold and silver.

One of the still remaining innovations upon normal finance incident to the war is the prohibition of note issues by banks organized under State laws. For thirty years, that right has been exclusively reserved to the National banks. The terms on which the National institutions are permitted to issue are so onerous as to have prevented the due expansion of this sole elastic element in our currency system, and instead of the volume of bank notes increasing with the growth of our population and commerce, it has lost within the last twenty years one-half of its amount, and the bank notes now in circulation do not equal the sum outstanding in 1860. Within the thirty years, our population has doubled and our internal commerce has probably quadrupled; and there has consequently been an immense retrogression in the ratio of this most valuable form of circulation to the national requirements for currency.

The effect of these legal disabilities upon interests dependent on the State banks has been most serious. It so happens, that four-fifths of the State bank capital (or \$200,000,000) is located in the Southern and Western States, and only one-fifth (\$60,000,000) in the Middle and New England States. It is in these same Southern and Western States that the pro-silver sentiment mainly exists; the connection between the denial of the right of issue to the State banks and the demand for silver being thus distinctly manifest. Nor do the sections subject to this discrimination get much compensation from the national system for the denial of issues to their State institutions. While these groups of States have 71 per cent of our whole population their National banks supply only 46 per cent of our total bank circulation; and although the Middle and Eastern States have but 28 per cent of the national population, yet they supply 54 per cent of the whole bank issue.

This inequality in the distribution of the privilege of note issue, and in the actual

amount of bank circulation, as between the Eastern sections and the Western and Southern, has become a real and serious sectional grievance. In its actual operation, it becomes a broad and potent discrimination as to banking functions between one set of banks and another and between one set of States and another. To this extent, it is charged with being a grossly inequitable and unjust exercise of the Federal authority. Nor is it easy to wholly deny the imputation.

It is not surprising that, under these circumstances, the South and West chronically complain of what they call "a scarcity of money," by which they really mean an insufficiency of credit facilities of the kind supplied by banks. At certain seasons they need large extra supplies of cash for the seeding, reaping and marketing of their crops. At present they are dependent for those facilities upon the stocks of money held by the Eastern banks. Those supplies are uncertain, and the demands upon them are very liable to produce fluctuations in the rate of interest and curtailments of bank loans, which derange the commercial operations of the whole country, and from which the large agricultural interest is especially liable to suffer. Were the State banks of these suffering sections, with their 20 millions of capital, free to issue notes, there would be no arbitrary dependence on the convenience of the Eastern banks. Each bank could supply its local interests with its own notes; there would be no monetary obstructions to business, no forcing down of prices from an insufficiency of currency, and no abnormal fluctuations in the rate of interest.

The bankers, the merchants, the traders and not a few of the intelligent farmers well understand how this virtual subjection to the convenience and the interest of the Eastern centres operates to their detriment. They have become exasperated on account of it, and being exasperated they have easily gone a step further and charged this position of things as due to a design, on the part of Eastern interests, to hold all other sections in subjection to their will and profit. Herein lies the source of a sectional grievance of the most serious and

threatening magnitude. Grangerism, populism, socialism and silverism find here their main inspiration and political strength. Despairing of getting the monetary relief they want, these people have fallen on a easy prey to the silver producers and have become their tools. They have no special preference for silver money; all the talk about the "standards" is meaningless nonsense to them. They only know that the silver men offer a supply of 50 to 60 millions a year of new money; and that money having been hitherto as good for their purposes as any other they don't exactly see why it should not remain so; and they are therefore enlisting right and left in the silver army.

In these facts and conditions centres three-fourths of the strength of the silver faction. Except among the silver miners and handlers, there would be no material for a silver agitation provided this obstruction to bank issues were removed. Were these interests assured that all the money they really needed could be supplied from their neighboring banks, with them there would be no longer a silver question, and Messrs. Teller, Jones & Co. would occupy their real position as mere representatives of a limited industrial interest.

The way is thus clear to a treatment of the silver agitation that would certainly end it. We do not for a moment doubt that when Eastern interests, not excluding those of the National banks, come to fairly understand the real meaning of the attitude of the South and the West, they will acquiesce in the extension of the right of issue to the State banks; provided that the guarantees, limitations and safeguards are such as to insure the absolute safety of the notes and are virtually identical with such amended conditions as may be provided for the National banks. What those conditions need to be we have so often stated that it is not needful to here reiterate them. It only remains to be said that, if these conditions are not conceded to the State banks, it will be found most difficult, if not impossible, to prevent the enactment of unconditional free coinage.

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